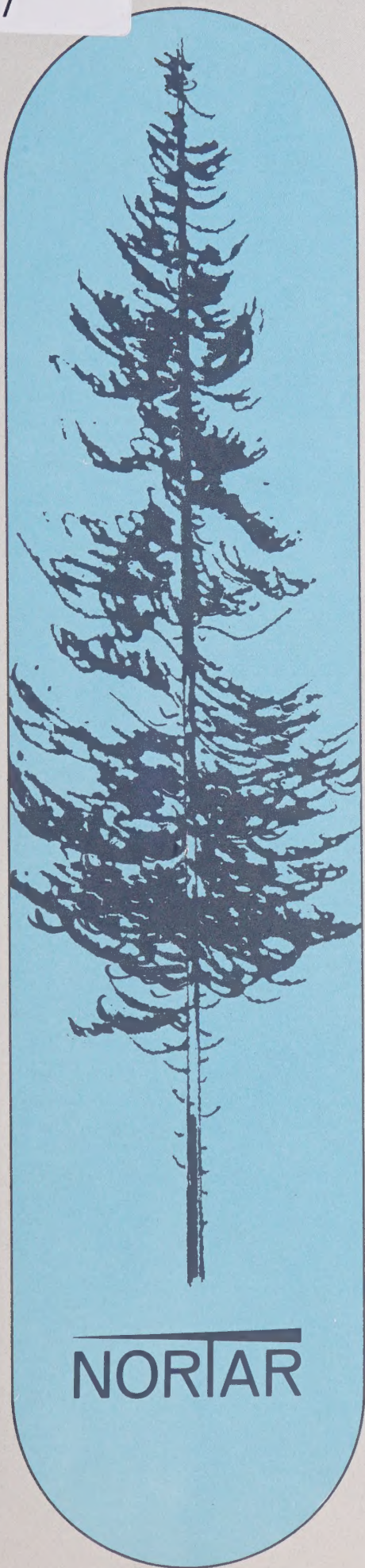




NORTAR

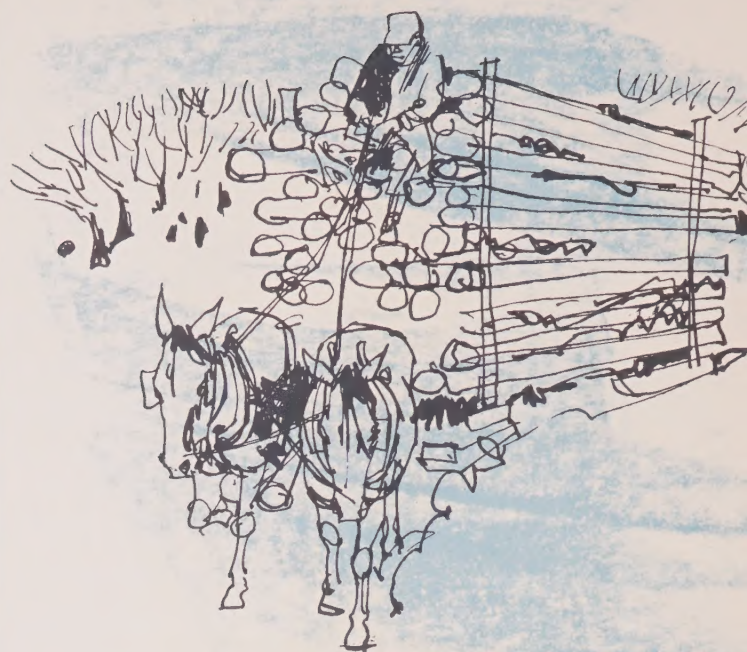
**NORTHERN TAR,
CHEMICAL AND WOOD
LIMITED**



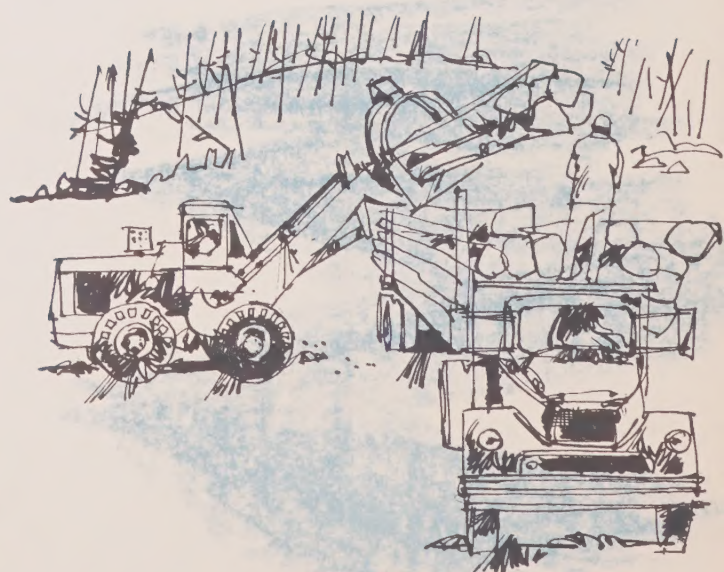
**ANNUAL REPORT
FOR THE YEAR
ENDED
DECEMBER 31, 1966**

HIGHLIGHTS

	1966	1965
Earnings before income taxes	\$445,085	\$655,240
Provision for income taxes	183,805	277,115
Net Earnings	328,654	378,125
Net Earnings per share, after payment of preferred dividends	66¢	79¢
Preferred dividends paid	\$ 59,777	\$ 61,200
Common dividends paid	162,520	120,000
Retained Earnings	605,164	496,923



The horse drawn sleigh contrasts with modern mechanized equipment used in log hauling operations.



REPORT OF THE PRESIDENT

The general pattern of growth and progress in Northern Tar, Chemical and Wood Limited was interrupted half way through the year 1966 by sharp increases in costs that could not be immediately matched by increased productivity or increases in prices.

The Company was committed to several fixed price contracts that had been negotiated prior to the period of general labour unrest that permeated every industry in 1966. It became necessary to negotiate several labour contracts in this atmosphere and, for the first time in the Company's thirty year history, employees at the Port Arthur plant went on strike for nearly a month, commencing the middle of August.

About the same time, a fire of major proportions completely destroyed the pole handling equipment at the Prince Albert Plant, thus causing further disruption in the Company's business.

Hence, a year that started out with sufficient buoyancy for the directors to feel justified in increasing the quarterly dividend from 30 cents per share to 40 cents per share was subsequently subjected to circumstances that resulted in net income for the year being down \$49,471 from the previous year.

Earnings:

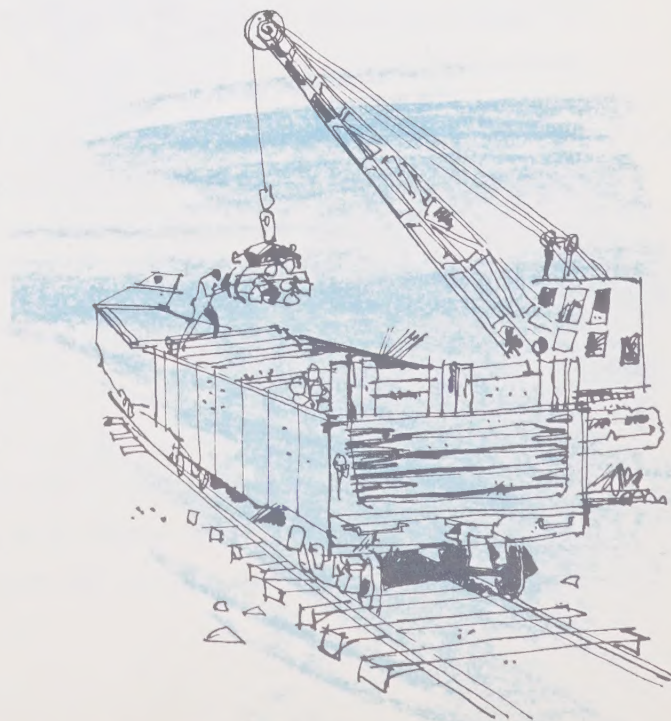
For the year ended December 31, 1966, net income, after provision for taxes, was \$328,654 (including \$67,374 of non-recurring income) compared to \$378,125 in 1965, \$343,198 in 1964 and \$304,727 in 1963 which, under the circumstances, is still a very creditable showing. This amounted to 66 cents per common share after payment of preferred dividends.

Dividends:

During the year, the common share dividend rate was increased to 40 cents per share, and \$162,520 was returned to holders of common shares in the form of dividends. Dividend payments to holders of the Company's cumulative redeemable preference shares, Series A, amounted to a total of \$59,777.



Down the river is still an acceptable method of transporting logs, although rail carriers are faster and more efficient.



Operations:

Demand for the Company's products and services remained strong throughout the year, the only exception being lumber for the construction industry which was adversely affected by curtailment of funds for mortgages. Difficult weather conditions during the early part of the year added to the cost of producing forest products and also delayed their delivery into the plants. While the strike delayed deliveries into the Port Arthur plant, it did not stop the production of rough poles and saw logs in the woods. Consequently, there has been an inventory build-up which can only be worked off over a period of months.

A similar situation developed at the Prince Albert plant as a result of the fire. Rough poles and fence posts that continued to be moved into the plant could not be processed until the new peeling machine went into operation early in February.

The large year-end inventories are now being processed and will move out during the spring and summer of 1967 at prices which, it is hoped, will cover the extra carrying charges.

Damage to the pole machine at the Prince Albert plant was covered adequately by insurance. Replacement has been completed recently with modern, automated machinery which will result in a more efficient, lower cost operation. It is now the most modern installation in the industry. The non-recurring item of \$67,374 in the statement of earnings represents income derived from insurance claims as a result of the fire.

In order to insure that operating costs will be kept at competitive levels in the face of other constantly rising costs, substantial capital expenditures have been necessary to provide further mechanization. This, combined with lower earnings during the latter part of the year, has reduced the Company's working capital.

Outlook:

Encouraging changes are taking place in the woods end of the industry which should have a favourable effect on the Company's business in 1967 and the years to come. The establishment of a large



sulphate kraft mill at the head of the lakes has not only created a demand for jackpine pulpwood but has resulted in increased demand and increased price for wood chips. Consequently, it is anticipated that smaller logs will be sold to the paper company, thus increasing the average size of log made available to the sawmill. This, in turn, increases the production of the larger and wider boards which carry a higher price. Furthermore, the small logs that must come into the sawmill can be converted to wood chips. The whole trend should bring a better net return from forest products.

The easing of credit for house building will restore the demand for building lumber. The farm market for fence posts and pole type buildings will undoubtedly be enhanced as a result of the substantial wheat sales this year.

Meanwhile, there is no letup in the demand for pressure treated railway ties, utility poles and other such products, in which the Company specializes, so there is every reason to expect a return to the growth pattern started some years ago.

During Canada's Centennial Year, we are all made aware of this country's rich store of natural resources, and the historic role played by the products of our vast forest in the growth and development of our country. Although we are in the space age,—the age of new metals, alloys and plastics,—we can still reach out at almost any time and touch something made of wood. Even now, with the advent of so many synthetics, the average Canadian in his lifetime uses the materials from over 400 trees. As our population grows the demand for wood increases.

To our employees, associates and shareholders we express our appreciation for their loyalty and support throughout the year.

On behalf of the Board of Directors,

March 13, 1967

R. J. PRETTIE,
President.



Mechanization in the cutting operations improves the two-men-with-a-crosscut method.



NORTHERN TAR, CHEMICAL AND WOOD LIMITED and its subsidiary

ASSETS

CURRENT ASSETS

	1966	1965
Cash - - - - -	\$ 84,484	\$ 44,692
Accounts receivable, less provision for doubtful accounts of \$21,184 (\$37,827 in 1965) - - -	1,457,858	1,059,279
Inventories at lower of cost or market - - - - -	2,070,355	1,943,821
Work in progress—at cost - - - - -	338,703	417,394
Prepaid expenses - - - - -	36,088	55,279
Cash surrender value of life insurance - - - - -	60,378	55,149
	<u>\$4,047,866</u>	<u>\$3,575,614</u>

REFUNDABLE CORPORATION TAX - - - - -	\$ 12,893	\$ —
INVESTMENT AT COST - - - - -	<u>\$ 13,335</u>	<u>\$ 14,685</u>

FIXED ASSETS—Note 1

Land, buildings, roads, machinery and equipment - - - - -	\$6,318,534	\$5,932,542
Less accumulated depreciation - - - - -	3,075,846	2,934,834
	<u>\$3,242,688</u>	<u>\$2,997,708</u>

DEPOSITS - - - - -	\$ 17,500	\$ 17,500
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DEFERRED CHARGES

Organization and unamortized financing expense - - - - -	\$ 145,324	\$ 148,468
Goodwill and patent rights—at cost - - - - -	14,491	14,491
	<u>\$ 159,815</u>	<u>\$ 162,959</u>

Approved on behalf of the Board:

R. J. PRETTIE, *Director*

S. F. MACK, *Director*

\$7,494,097 \$6,768,466

AUDITORS' REPORT

The Shareholders,
NORTHERN TAR, CHEMICAL AND WOOD LIMITED.

We have examined the consolidated balance sheet of Northern Tar, Chemical and Wood Limited and its subsidiary companies as at December 31, 1966 and the consolidated statements of earnings, retained earnings and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

(The accompanying notes are an in

Companies CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1966

(with comparative figures for the prior year)

LIABILITIES

CURRENT LIABILITIES

	1966	1965
Due to bankers—secured - - - - -	\$1,998,596	\$1,040,591
Accounts payable and accrued charges - - - - -	613,990	701,192
Current instalment of long term debt - - - - -	70,000	70,000
Provision for income taxes—Note 2 - - - - -	31,709	214,847
Dividends payable - - - - -	55,492	45,417
	<u>\$2,769,787</u>	<u>\$2,072,047</u>

LONG TERM DEBT—Note 3

6.50% secured debenture due May 15, 1978, payable in annual instalments - - - - -	\$1,020,000	\$1,090,000
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SHAREHOLDERS' EQUITY

Capital Stock

Authorized:

98,946—preference shares with a par value of \$25 each issuable in series—Note 5

1,000,000—common shares without par value

Issued and fully paid:

34,946—\$1.70 cumulative, redeemable preference shares, Series A—Note 5 - - -	\$ 873,650	\$ 900,000
406,400—common shares (6,400 shares issued for cash of \$16,000 in 1966) - - -	824,000	808,000

	<u>\$1,697,650</u>	<u>\$1,708,000</u>
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Retained Earnings - - - - -	605,164	496,923
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Excess of net book value of subsidiary companies over cost of investment therein - - - -	401,496	401,496
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Fixed asset revaluation—Note 1 - - - - -	1,000,000	1,000,000
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	<u>\$3,704,310</u>	<u>\$3,606,419</u>
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	<u>\$7,494,097</u>	<u>\$6,768,466</u>
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In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, retained earnings and source and application of funds, supplemented by the notes thereto, present fairly the financial position of the companies as at December 31, 1966 and the results of operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Port Arthur, Ontario, January 27, 1967.

F. H. BLACK & CO.
Chartered Accountants.

CONSOLIDATED STATEMENT OF EARNINGS for the year ended December 31, 1966

(with comparative figures for the prior year)

	1966	1965
Sales - - - - -	\$7,798,773	\$7,575,107
Cost of sales - - - - -	6,528,353	6,138,276
Gross earnings from operations before the following items - - - - -	\$1,270,420	\$1,436,831
Other income - - - - -	62,498	60,006
	<u>\$1,332,918</u>	<u>\$1,496,837</u>
Administrative and general expense - - - - -	\$ 499,862	\$ 495,354
Depreciation- - - - -	196,583	170,348
Interest on debentures - - - - -	75,385	81,053
Other interest and discounts - - - - -	111,787	90,768
Directors' fees and expense - - - - -	4,216	4,074
	<u>\$ 887,833</u>	<u>\$ 841,597</u>
Earnings from operations before income taxes - - - - -	\$ 445,085	\$ 655,240
Income taxes—Note 2 - - - - -	183,805	277,115
	<u>\$ 261,280</u>	<u>\$ 378,125</u>
Non-recurring income—Note 7 - - - - -	67,374	—
Net income for the year - - - - -	<u>\$ 328,654</u>	<u>\$ 378,125</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Balance at beginning of year - - - - -	\$ 496,923	\$ 299,998
Net income for the year - - - - -	328,654	378,125
Discount on redemption of preference shares - - - - -	1,884	—
	<u>\$ 827,461</u>	<u>\$ 678,123</u>
Dividends		
Common shares - - - - -	\$ 162,520	\$ 120,000
Preference shares - - - - -	59,777	61,200
	<u>\$ 222,297</u>	<u>\$ 181,200</u>
Balance at end of year - - - - -	<u>\$ 605,164</u>	<u>\$ 496,923</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1. *Fixed Assets*

Fixed assets are valued as follows:—

At cost:		Accumulated Depreciation
Land - - - - -	\$ 20,060	—
Buildings - - - - -	79,946	\$ 33,896
Roads - - - - -	57,562	11,390
Machinery and equipment - - - - -	1,406,676	1,002,738
	<u>\$1,564,244</u>	<u>\$1,048,024</u>

At a valuation approved by the Board of Directors of Northern Wood Preservers Limited, being less than an appraised value as determined by General Appraisal Company Limited as at November 23, 1965 with subsequent additions at cost.

Buildings, machinery and equipment of Northern Wood Preservers Limited - -	4,754,290	2,027,822
	<u>\$6,318,534</u>	<u>\$3,075,846</u>

NOTE 2. *Income Taxes and Depreciation*

In accordance with the established practice of the company, depreciation has been provided on the basis of amortizing the undepreciated capital cost of the various assets over their estimated useful lives, as determined by the management.

Income taxes since January 1, 1963 have been calculated on the basis of a decision to claim capital cost allowance at the maximum rates allowable and as a result the taxes otherwise payable have been reduced by approximately \$201,875 to December 31, 1966 of which \$53,435 is applicable to 1966. The reduction in taxes may be offset in future years when depreciation recorded on the books exceeds the amounts allowable for tax purposes.

NOTE 3. *Long Term Debt*

A wholly owned subsidiary has issued a 6.50% Secured Debenture dated May 7, 1963 in the aggregate principal amount of \$1,300,000 maturing May 15, 1978, of which \$1,090,000 is presently outstanding,

payable \$70,000 on May 15, in the years 1967 and 1968 and \$95,000 in the years 1969 to 1978.

NOTE 4. *Stock Options*

The company reserved 20,000 common shares for issue at \$2.50 per share upon the exercise of options granted to officers and employees of the company or its subsidiaries. Under the option agreement 6,400 shares were sold in 1966 and the balance of 13,600 shares are exercisable from time to time on or before March 31, 1969.

NOTE 5. *Purchase Fund for Redemption of Preference Shares*

During the year 1966 the company purchased for cancellation 1,054 preference shares of the company at an aggregate price of \$24,466 and the authorized and issued preference shares have been reduced accordingly.

On or before March 1 in each year commencing with the year 1966, the company must set aside a purchase fund of \$20,000 for the purchase of preference shares for cancellation, until the said amounts set aside and not used or applied equal \$80,000.

NOTE 6. *Contingent Liability*

In determining the estimated income tax liability for the years 1964 to 1966 inclusive, a subsidiary company deducted interest and financing charges on long term debt. In the opinion of the tax authorities, a portion of these charges do not qualify as a cost of earning income from the business, and if disallowed, the resultant taxes excluding interest could amount to approximately \$74,000.

Arguments have been submitted in support of the subsidiary company's claim for allowance of these charges and if the tax authorities proceed to make assessments in accordance with their proposal, the additional tax payable, if any, will be a matter to be determined by the Courts.

NOTE 7. *Non-recurring Income*

During the year the plant and equipment of a subsidiary was partially destroyed by fire and insurance proceeds exceeded the book value of the assets destroyed by \$67,374. Subsequent to the year end an additional claim has been submitted under the business interruption insurance policy and, pending settlement, this claim has not been reflected in the financial statements.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS for the year ended December 31, 1966

(with comparative figures for the prior year)

SOURCE OF FUNDS

	1966	1965
Net income for the year - - - - -	\$328,654	\$378,125
Charges against income not requiring cash outlay		
Depreciation - - - - -	196,583	170,348
Amortization of financing expense - - - - -	3,144	3,816
Sale of investments - - - - -	1,250	—
Issue of common shares under option agreement - - - - -	16,000	—
	<u>\$545,631</u>	<u>\$552,289</u>
DECREASE IN WORKING CAPITAL (increase in 1965) - - - - -	225,488	—4,346
	<u>\$771,119</u>	<u>\$547,943</u>

APPLICATION OF FUNDS

Purchase of fixed assets - - - - -	\$441,463	\$289,795
Deposit on cutting rights - - - - -	—	5,000
Instalment payment on long term debt - - - - -	70,000	70,000
Dividends		
Common shares - - - - -	162,520	120,000
Preference shares - - - - -	59,777	61,200
Financing expense - - - - -	—	1,948
Refundable corporation tax - - - - -	12,893	—
Redemption of preference shares - - - - -	24,466	—
	<u>\$771,119</u>	<u>\$547,943</u>

TEN YEAR SUMMARY

Year ended - - - - -	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957
Operating profit, before interest on long term debt, depreciation and taxes on income - - -	\$821,666	\$906,641	\$825,440	\$665,524	\$554,385	\$479,845	\$816,216	\$713,165	\$648,975	\$778,191
Interest on long term debt - -	75,385	81,053	84,433	53,947	375	795	1,575	2,175	5,736	7,238
Depreciation - - - - -	185,193	170,348	150,179	122,990	230,538	225,395	236,149	250,162	245,847	283,682
Earnings before income taxes - -	512,459	655,240	590,828	488,587	323,472	253,655	578,492	460,828	397,392	487,271
Income taxes - - - - -	183,805	277,115	247,630	183,860	161,563	119,828	291,804	238,688	188,022	233,651
Net earnings - - - - -	328,654	378,125	343,198	304,727	161,909	133,827	286,688	222,140	209,370	253,620

NOTE: Operations for the seven years from 1957 to 1963 were conducted by the Northern Wood Preservers, Limited group of companies, of which Northern Tar, Chemical and Wood Limited acquired 100 per cent ownership in 1964.

DIRECTORS

J. S. GAIRDNER

J. H. GAIRDNER

J. H. HAWKE

F. HEDLEY

C. W. LEONARDI, F.C.A.

S. F. MACK

R. J. PRETTIE

OFFICERS

J. S. GAIRDNER—CHAIRMAN OF THE BOARD

R. J. PRETTIE—PRESIDENT

S. F. MACK—VICE PRESIDENT

R. J. HARTVIKSEN—SECRETARY AND TREASURER

F. HEDLEY—ASSISTANT SECRETARY

C. H. HOLLINGSHEAD—ASSISTANT SECRETARY

TRANSFER AGENT AND REGISTRAR

THE ROYAL TRUST COMPANY—

TORONTO, MONTREAL, WINNIPEG AND VANCOUVER

AUDITORS

F. H. BLACK & CO., (*Chartered Accountants*)

PORT ARTHUR, ONTARIO

NORTHERN TAR, CHEMICAL AND WOOD LIMITED

NORTHERN WOOD PRESERVERS, LIMITED

NORTHERN FOREST PRODUCTS LTD.

NORTHERN WOOD PRESERVERS (SASKATCHEWAN) LIMITED

HEAD OFFICE

Port Arthur, Ontario

PLANTS

Port Arthur, Prince Albert

SALES OFFICES

Calgary, Port Arthur, Prince Albert, Toronto

TAR ENAMELS DIVISION

Rust-preventative pipeline tar coatings

TAR DISTILLATION DIVISION

Creosote, carbon coke, roofing pitch, tar-base enamel, road tars, foundation coatings, pentasol, carbon pitch

PRESSURE TREATMENT DIVISION

Pressure treated and fire retardant treated wood products, poles, piling, posts, bridge timbers, mine shaft timbers, culverts, lumber, ties, custom framing of timber products, custom treating services

SAWMILL AND LUMBER DIVISION

Wholesale and specialized industrial lumber products, pulpwood chips, railway cross ties, air dried and kiln dried spruce, white pine and jack pine lumber

LOGGING DIVISION

Pulpwood, sawlogs, tie bolts, piling, posts



NORTAR

**NORTHERN TAR, CHEMICAL AND WOOD
LIMITED**